Money, Prices, Credit, and Banking

Why Is the Dollar Shrinking? A Study in the High Cost of Living. By IRVING FISHER. (New York: The Macmillan Company. 1914. Pp. xiv, 223. $1.25.)

The rise in the general price level since 1896 has caused no little excitement and brought out many superficial and some fallacious explanations. Professor Fisher, keenly alive to the dangers of false logic, is striving diligently to educate the public in monetary matters and to show the underlying cause for past and present price changes. *Why Is the Dollar Shrinking?* is another forceful book from his facile pen on the relation between the quantity of money and prices.

After clearing the ground by preliminary description of wealth, property, and money, the author launches his main argument on the reason for price changes by way of the price equation, $MV + M'V' = PT$. Chapters on Bank Deposits Subject to Check, Remote Influences on Prices, Can Other Things Remain Equal? and The History of Price Levels show that all other factors operate through the amount of money in circulation, the amount of bank deposits and the volume of trade, and that all factors tend to concentrate upon the amount of money in circulation or the volume of trade. All the known factors tend toward an increase of the general price level with the exception of those factors which bring an increase in the volume of trade. In general, the situation today is such that "the means for conducting trade have outrun the volume of trade to be conducted thereby" (p. 189). Inflation of money and credit explains the changes in price levels (p. 182); and due to this inflation prices have tended to increase during the last ten centuries. In his concluding chapters Professor Fisher points out the fallacies in present-day reasoning on the subject of prices, and ventures on certain predictions in regard to the future trend of prices.

Although the author is very careful at certain stages in his argument to show that back of the price equation is the standard of value, gold (p. 113, 169, and 190), yet at many points he seems to lay undue emphasis upon his algebraic formula (p. 88, 182, and 189). It is pretty clear that inflation causes an increase of prices, but this inflation is caused by an increase in the supply of the standard metal and a consequent decline in its purchasing power. It would seem that $MV + M'V' = PT$ is as

correct in the explanation of general price levels as the generality "demand and supply" in that of single commodity prices. Neither explains much in and of itself, but both are correct provided the underlying forces are brought to light. Thus, the price equation is true when its dependence upon the gold supply and the volume of trade has been made clear. From the money side gold is all important, but gold is a commodity, a part of wealth, and its value, *i.e.*, its purchasing power, is determined not alone by its quantity but to some extent by the composite demand for gold (the arts and money demand). Taking human nature as it is, one doubts whether mere quantity of money units would have any effect upon prices if considered apart from the standard commodity.

The reader is a bit skeptical when he comes to Professor Fisher's exact predictions in respect to future price changes. Indeed, it is a very difficult thing to reduce to an exact mathematical basis such a complex of conditions as are presented in the author's analysis of remote influences. To assume on the basis of even well-known past facts that trade is likely to grow by 4½ per cent a year, money by 6 ½ per cent, and therefore that money will outstrip trade by 2 per cent per annum (p. 220), seems rather dubious. So far as the reviewer is aware there has never been a case, except in pure theory, where the general price level changed proportionately to the quantity of money units in circulation. Again, the tendency of prices for the next ten or twenty years may be upward, but here we are in the uncertain field of scientific guesswork.

The book is clear in statement, concise, and well arranged. It is delightful to pick up a treatise on a difficult subject like the relation of money to prices and find the author presenting his argument with great clearness and in a literary style so simple and direct that it holds the reader's attention from the first page to the last.

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